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BEFORE THE

Federal Communications Commission

WASHINGTON, D.C. 20554

JUL 27 1993
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
1993 Annual Access Charge	)	CC Docket No. 93-193
Tariff Filings	)	

To: The Secretary

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

DIRECT CASE OF ROSEVILLE TELEPHONE COMPANY

ROSEVILLE TELEPHONE COMPANY

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July 27, 1993

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SUMMARY

Roseville Telephone Company ("Roseville") submits this Direct Case in response to the Commission's Memorandum Opinion and Order Suspending Rates and Designating Issues for Investigation in the 1993 Annual Access Tariff proceeding (CC Docket No. 93-193), DA 93-762, released June 23, 1993 (the "1993 Tariff Order"). In that Order, the Commission designated an issue to investigate Roseville's cash working capital requirement ("CWC"), and also designated an issue to investigate whether numerous local exchange carriers, including Roseville, properly reallocated general support facility ("GSF") costs in accordance with the Commission's Amendment of the Part 69 Allocation of General Support Facility, Costs Report and Order, CC Docket No. 92-222, FCC 93-238, released May 19, 1993 (the "GSF Order"). As shown herein, both its CWC requirement and its reallocation of GSF costs were properly calculated, and thus its 1993 access tariff rates are just and reasonable.

Roseville's CWC requirement is based on a properly performed and accurately calculated lead/lag study, as demonstrated in a lengthy description and attached worksheets. The Commission has often stated that lead/lag studies are the most accurate method of determining CWC requirement. While the Commission has allowed certain carriers to use a "Simplified Formula Method" or "Standard Allowance Method", it did so only to relieve those carriers of the burdens associated with performing full lead/lag studies. Roseville's results, based on the its unique operating conditions,

are per se more accurate than the results derived from a standardized allowance. This accurate calculation of Roseville's CWC requirement resulted in just and reasonable rates.

In the 1993 Tariff Order, the Commission designated the GSF filings of all LECs out of "an abundance of caution" since, due to filing requirement, there would be limited time to investigate the

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To: The Secretary

DIRECT CASE OF ROSEVILLE TELEPHONE COMPANY

Roseville Telephone Company ("Roseville"), by its attorneys, hereby submits its Direct Case in response to the Commission's Memorandum Opinion and Order Suspending Rates and Designating Issues for Investigation in the 1993 Annual Access Tariff proceeding (CC Docket No. 93-193), DA 93-762, released June 23, 1993 (the "1993 Tariff Order"). In that Order, the Commission designated an issue to investigate Roseville's cash working capital requirement ("CWC"), and also designated an issue to investigate whether numerous local exchange carriers, including Roseville, properly reallocated general support facility ("GSF") costs in accordance with the Commission's Amendment of the Part 69 Allocation of General Support Facility, Costs Report and Order, CC Docket No. 92-222, FCC 93-238, released May 19, 1993 (the "GSF Order"). As shown herein, both its CWC requirement and its reallocation of GSF costs were properly calculated, and thus its 1993 access tariff rates as amended by its June 16, 1993 filing for GSF reallocations are just and reasonable. Accordingly, the Commission should approve Roseville's Tariff No. 1, and remove the accounting order imposed in the 1993 Tariff Order.

I. ROSEVILLE'S CASH WORKING CAPITAL FIGURES WERE PROPERLY CALCULATED AND ACCURATELY REFLECTED IN ITS REVENUE REQUIREMENTS

Roseville's Transmittal No. 26, filed on April 2, 1993, with an effective date of July 1, 1993, revised its Tariff F.C.C. No. 1 to set forth its rates for switched access and special access services. On April 27, 1993, AT&T filed a Petition to suspend and investigate the tariffs filed by various Local Exchange Carriers ("LECs"), including Roseville. AT&T contended that Roseville had overstated its CWC requirement by approximately $1.2 million, resulting in an alleged overstatement of its interstate revenue requirement of $202 thousand. Roseville's May 10, 1993 Reply demonstrated that AT&T's imputed calculation of the lag days to determine Roseville's CWC was faulty, and that its attempt to compare Roseville's lag days with those of other carriers was flawed and inappropriate. The core of Roseville's argument was that its CWC requirement was determined by a comprehensive lead/lag study prepared using information and figures specific to Roseville's operations. In this portion of its Direct Case, Roseville presents the methodology and the figures used in that study, and demonstrates that its methodology was proper, and that its calculations were accurate. In light of the Commission's long-standing recognition that lead/lag studies produce the most precise assessments of CWC requirement[1], Roseville's reliance on the results of its study is clearly just and reasonable.

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[1] See, e.g., Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Bases and Net Income of Dominant Carriers, Report and Order, 3 FCC Rcd 269,279 (1987) (the "Rate Base Component Order").

II. CASH WORKING CAPITAL LEAD/LAG STUDY PROCEDURES

CWC is an estimate of the average amount of investor-supplied capital needed to provide funds for a carrier's day-to-day operations[2]. Because on average, operating expenses and taxes are paid for in advance of the receipt of revenues, investor-supplied cash working capital is required for payment. The Commission recognizes that a lead-lag study provides the most accurate assessments of cash working capital needs as it takes an individual company's operating conditions into account.[3] Roseville utilized the Telecommunications Consulting Group of Ernst & Young, an internationally recognized accounting firm, to perform such a study for Roseville.[4] Workpapers from that study are included as Attachment A. That study, based on Roseville's specific operating conditions, produced a net lag of approximately 59 days as an accurate assessment of Roseville's interstate Cash Working Capital needs.

A. Overview of Study Techniques

The lead/lag study completed on Roseville's operations involved an analysis to determine the lag for revenues, expenses

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[2] Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Bases and Net Income of Dominant Carriers, Order on Reconsideration, 4 FCC Rcd 1697 (1989) (the "Rate Base Component Recon. Order").

[3] Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Bases and Net Income of Dominant Carriers, Notice of Proposed Rulemaking, 2 FCC Rcd 332,334 (1987).

[4] The Ernst & Young staff who prepared Roseville's interstate lead/lag study have also prepared revenue requirement, rate and CWC studies for many companies since 1971. Ernst & Young has prepared lead/lag studies for a variety of telephone companies and other utilities.

and taxes. Also, the impact of the size of the collection or payment was considered by weighting the number of days with the associated dollars. This was done by utilizing one of two methods, the Dollar-Day Analysis or the Balance of Account Analysis, both of which were performed in Roseville's study.

1. Dollar-Day Analysis

The most prevalent method used in this study was the dollar-day analysis, which involved a detailed study of the lag for each receipt or payment. This method assigns weights to the collections or payments by multiplying the dollar amounts for the different types of collections or payments by the respective number of lag days. See Attachment A Schedule Rev 2-1 for an illustration of the dollar-day analysis.

2. Balance-of-Account Method

When a dollar-day analysis was not practical, due to the difficulties in matching specific payments received to services provided, a study based on the sum of the daily clearances for an account was used for portions of the revenue lag studies. The equivalent dollar-days were determined by analysis of the multiple appearances of an outstanding item in the balances.[5] As shown in the example, Table 1 below, this method produces essentially the same results as the dollar-day analysis. See Attachment A, Schedule Rev 3-4 for an illustration of the balance-of-account method.

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[5] The balance-of-account method is simply a variation of the "account turnover" method that describes how often a balance sheet account turns over in one year. The only difference is that the result is expressed in terms of days instead of years.

Table 1
Methods of Deriving Lag Days
(Figures and Intervals Hypothetical)

	Balance-of-Account Method		Dollar-Day Method	
Date of Month	Accounts Receivable Balance	Daily Payments	Days Weighted	Dollar Days
(a)	(b)	(c)	(d)	(e)
1	1,000		-	
2	750	250	1	250
3	450	300	2	600
4	300	150	3	450
5	0	300	4	1,200
Totals	2,500	1,000	-	2,500

Both methods arrive at the same number of lag days, 2.5 (dividing column b by c; dividing e by c).

B. Prepayments and Postpayments

Certain expense items in Roseville's income statement for a given period were actually paid by a cash disbursement in a period prior to when they were charged to prepaid accounts. Conversely, some items were included in a current period but not paid for by a cash disbursement until a later period. Prepayments resulted in negative expense lags (leads) and postpayments resulted in positive expense lags.

The basic study objective was to analyze all components of the income statement in order to determine when the revenues and expenses represented were actually collected or paid for. The

payments applicable to shorter terms such as payroll, the midpoint of the payroll period was used.

If it was determined that the cash payment related to an expense item in the study period covered costs not only for the study period, but also beyond (e.g., rent for an annual period), the average lag applicable to the total payment and its related average total period was applied to the study period amounts. To illustrate, if an annual rental is prepaid on December 31st for the following year, the service period is 182.5 days (365 divided by 2).

In the revenue lag study, positive lag day values meant that there was a delay in the receipt of revenues measured from the midpoint of the service period. Unless offset by positive expense or tax payment lags, this created a need for investor-supplied cash working capital. A negative revenue lag day value (bracketed amount) indicated a prepayment of revenues based on the midpoint of the service period.

In the expense lag or tax lag study, positive lag day values meant that there was a delay in the payment of expenses or taxes measured from the midpoint of the benefitted period. This provided cash working capital. A negative lag day value (bracketed amount) indicated a prepayment of expenses or taxes measured from the midpoint of the benefiting period. This condition required cash working capital from Roseville's investors unless offset by revenues received as prepayments.

C. **Measuring Standards**

The time of payment for all items was considered to be the end of the day on the date paid. Measurements were based on calendar

develop a lag for each of the revenue categories. Four separate time periods were considered in determining the total time lag for each of the four revenue categories listed above:

a. "Service midpoint to end of service period" is the average date service is rendered to the end of the service period;

b. "End of service period to billing extraction" is the time from the end of the service period to the date on which billing is generated;

c. "Billing extraction to collect" is the period of time from the date on which billing is generated to the date on which payment is received; and

d. "Collect to deposit" is the period of time from the date a payment is received until the date on which it is deposited in a bank.

3. **Revenues from Carriers**

Roseville bills interexchange carriers for providing network access to the local exchange. Using the data from the CABS system, the revenue lag associated with providing service to AT&T, as well as other common carriers ("OCCs"), was calculated.

For AT&T, the CABS bills were analyzed using the dollar-day approach described above. It was necessary to analyze the CABS bills in two sections:

a. Carrier Common Line (CCL) and Traffic Sensitive revenues (excluding special access), which were billed in arrears; and

b. Special access only, which was billed in advance.

As shown on Attachment A Schedule Rev 2-1, this analysis yielded 49.64 lag days.

For OCCs, the balance-of-account method described above was utilized. This method was chosen due to the large number of carriers and the sporadic nature of their payments. The result of

this analysis, 66.57 lag days, is identified on Attachment A Schedule Rev 3-1.

4. Prior Period Adjustments

The dollar-day approach described above was utilized. Prior Period adjustments arise due to interim and final settlement of interstate revenue requirement during the two-year window for cost study closure associated with NECA pooling arrangements. This analysis of NECA EC2053 forms yielded the 237.10 lag days calculated on Attachment A Schedule Rev 4-1.

5. NECA Interstate Revenue Settlements

The lag for NECA interstate settlements was determined directly by comparing the midpoint of the settlement month or period with the date of payment or receipt. NECA EC3050 forms were analyzed using the dollar-day approach described above to produce the 45.02 lag days identified on Attachment A Schedule Rev 5-1.

6. Revenues from Coin Box Collections

Only the revenue lag for "sent-paid" calls, i.e., those calls paid for by a deposit of coinage into public or semipublic phone should be studied. Public or semipublic calls paid for by credit cards or by third-party billings were reflected in the CABS lag study. However, it was determined that coin revenues deposited into public or semipublic telephones were primarily related to local calls and therefore not applicable to Roseville's interstate lead/lag study and thus, were not included.

7. Revenues from Subscribers

The revenue lag for billing to end users was determined by analyzing the daily accounts receivable balances and bank deposits

for a three-month study period following the balance-of-account method described above. The daily accounts receivable balances billed were divided by the amounts collected in order to determine the collection lag.

The billed revenue lag of 37.39 days is detailed on Attachment A Schedules Rev 8-4, Rev 8-5 and Rev 8-6. The net lag basic study factor for billed revenues was calculated as 22.18 days, as detailed on Attachment A Schedule Rev 8-1.

8. **Revenue Lag**

One final lag was calculated which consolidated all of the revenue categories discussed above for input to the lead/lag day calculation. The lags calculated for the various revenue categories were weighted by the amount of revenue in that category in order to arrive at one revenue lag, the 71.30 days calculated on Attachment A Schedule Rev-1.

E. **Expenses**

1. **Overview**

Expense lag is the average interval in days between the time services are received and the date Roseville pays for such services. This section outlines the procedures followed to determine the expense lag component of Roseville's cash working capital.

A separate lag was developed for each of the following

2. Vendor Analysis

To determine the lag days associated with the "Other" accounts in the Part 32 matrix, a random sample analysis of the annual accounts payable vouchers was performed. Any expenses analyzed separately elsewhere were excluded from the analysis. A confidence level which exceeded 90 percent was used to determine the sample selected. Once the sample was selected, the dollar-day approach described above was used to analyze the data. The Vendor Analysis yielded the expense lag of 30.12 days noted on Attachment A Schedule Exp 1-0a.

3. Payroll

The payroll lag was the composite interval in days between the midpoint of the pay periods to which the salary and wage payments were applicable and the various dates of remittance of the amounts deducted and the date of the net payment to the employees. Payroll lag was based on wage and salary payments made through the payroll system.

A study of payroll periods for a calendar quarter was necessary in order to provide a representative number of pay days by type, and to give proper weight to each. The Dollar-Day approach described above was used to record the net payroll, deductions, and remittance dates during the study period. A separate set of forms was used for each payroll type. Payroll types included:

- Net Payroll
- Payroll Taxes
  - Employee Social Security
  - FIT withholding
  - SIT withholding
  - Disability Taxes
- Garnishment of Wages

- Charitable Donation withholding
- Medical Insurance
- Life Insurance
- Savings Plan withholding

The data for the various payroll types was consolidated on Attachment A Schedule Exp 2-1 in order to compute the single composite weighted payroll lag for the three-month study period of 13.21 days.

4. Taxes

The dollar-day method described above was utilized for each tax analysis: Federal Income Tax; State Income Tax and Property Taxes. Attachment A Schedule Exp 3-1 displays the results, 3.26 lag days.

5. Prepaid Expenses

A separate analysis of prepaid expenses was necessary in order to capture the payments made to creditors which were in advance of the midpoint of the service period. Attachment A Schedule Exp 4-2 contains the expense lead (137.67 days) resulting from the Dollar-Day analysis utilized.

6. Fixed Charges

The Commission has required that unmatured interest be included in lead/lag studies. Rate Base Recon. Order, 4 FCC Rcd at 1700. Therefore an analysis of interest expense on funded debt, capitalized leases, commercial paper and bank loans was performed utilizing the dollar-days approach. The 92.39 lag day result is calculated on Attachment A Schedule Exp 5-1.

F. Expense Lag

One final lag was calculated which consolidated all of the expense categories discussed above for input to the lead/lag day calculation. The lags calculated for the various expense categories were weighted by the amount of expense in that category [redacted]

was originally included as cost support in Roseville's 1993 Interstate Access Tariff Filing.

III. ROSEVILLE'S CALCULATION OF ITS CASH WORKING CAPITAL REQUIREMENT IS REASONABLE

In amending Part 65 of its Rules, the Commission has stated that "properly developed lead-lag studies are the most appropriate method for determining the interstate cash working capital requirement". Rate Base Component Order, 3 FCC Rcd at 279. While the Commission has allowed certain carriers to use a "Simplified Formula Method" or "Standard Allowance Method" instead, it did so only to relieve those carriers of the burdens associated with performing the full lead/lag studies. Id. and Rate Base Component Recon. Order, 4 FCC Rcd at 1698. Nothing in those Orders, however, undercut the presumed accuracy of lead/lag studies based on individual company characteristics.

As was shown above, Roseville's CWC requirement was based on a properly performed and accurately calculated lead/lag study. Accordingly, evaluating the reasonableness of Roseville's CWC requirement by comparing it with those of carriers using a standardized allowance is invalid: Roseville's result is per se more accurate. This accurate calculation of Roseville's CWC requirement resulted in just and reasonable rates.

IV. ROSEVILLE HAS PROPERLY REALLOCATED GSF COSTS

In order to "correct the misallocation of general support facility investment and related expenses among the Part 69 cost categories for local exchange carriers (LECs)", the Commission

recently modified Section 69.307(b) of the its Rules by deleting the language "excluding Category 1.3". GSF Order at para. 1.

Prior to that modification, the Commission's Rules required that

> General Support Facilities investments shall be apportioned among the interexchange category, the billing and collection category, and Common Line, Limited Pay Telephone, Local Switching, Information, Transport, and Special Access elements on the basis of Central Office Equipment, Information Origination/Termination Equipment, and Cable and Wire Facilities excluding Category 1.3, combined.[6]

Accordingly, the Part 69 Model that Roseville used for separations for periods prior to July 1, 1993 excluded Cable and Wire Facilities Category 1.3 investment from the apportionment of GSF

used to calculate the percentage changes to rates for Roseville's June 16, 1993 filing.[7] No changes were made to Roseville's Part 36 Separations Model or to the test year demand or financial data.

Roseville concurs with NECA's Carrier Common Line (CCL) rates and participates in NECA's CCL pool. Roseville contacted NECA to verify the reasonableness of Roseville's calculated impacts of GSF reallocation to CCL. NECA's estimate of the impact of the GSF reallocation on Roseville's CCL revenue requirement produced results comparable to those calculated by Roseville.

accurate than use of a standardized allowance. Thus, that part of its tariff rates reflecting CWC requirement is just and reasonable. Similarly, because Roseville's reallocation of GSF costs complies with the Commission's GSF Order and its Rules, that part of Roseville's tariff rates reflecting GSF costs is just and reasonable. Accordingly, the Commission should approve Roseville's Tariff No. 1, and remove the accounting order imposed in the 1993 Tariff Order.

Respectfully submitted,

ROSEVILLE TELEPHONE COMPANY

By: Paul J. Feldman

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July 27, 1993

DIR-CASE.RTC

DECLARATION OF GREG GIERCZAK

I, Greg Gierczak, am Director - Regulatory for Roseville Telephone Company. I have personal knowledge of the accounting and separations procedures used by Roseville in creating its tariffs. I have read the "Direct Case of Roseville Telephone Company" to which this Declaration is attached. The facts stated therein are true and correct to the best of my knowledge and belief.

I declare under penalty of perjury that the foregoing is true and correct.

Greg Gierczak

Executed on July 27, 1993.

DECLARATION OF MICHAEL CAMPBELL

I, Michael Campbell, am a partner in the accounting firm of Ernst & Young. I have read the "Direct Case of Roseville Telephone Company" to which this Declaration is attached. I was responsible for the preparation of the lead/lag study which provided the basis for Roseville's Cash Working Capital requirements, which are at issue in this proceeding, and I have personal knowledge of the preparation and contents of that lead/lag study. The part of the Direct Case discussing the methodology and the contents of that study is an accurate description of the methodology and contents of the original study. The lead/lag study working papers attached to the Direct Case are true copies of the original working papers.

I declare under penalty of perjury that the foregoing is true and correct.

July 27, 1993

Michael Campbell

ATTACHMENT A

NET-1

Roseville Telephone Company
Net Lag Days
Lead/Lag Study 1999

	INITIALS	DATE	REFERENCE
PREPARED BY	JS	1/90	
CHECKED BY	MRD	1/30/90	JS 3/90
APPROVED BY	LR	1/90	

wilmer service line-LITHO IN U.S.A.

VENDOR ANALYSIS

Alphabetized Analysis

	(1)	(2)	(3)	(4)	LINE No.
			Days	Source	
Net Lag Days for Operating Revenue			7.130	Rev-1A	2
Net Lag Days for Operating Expenses			11.763	Exp-D	4
Excess lag in receipt of revenues over lag in payment of operating expenses (ln 2 - ln 4)			59.67	✓	9